

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: City of Paramount	Amount Requested:	\$5,500,000
Name of Project: Water Well #15 Construction Project (Project)	Requested Financing Term:	30 years
Project Address: 6503 Somerset Boulevard Paramount, CA 90723	Interest Rate:	3.31%
	Tier:	Tier 1
Project Description: The Project consists of the design and construction of a new water well and related pumps, motors, valves, controls, and communications equipment; the construction of a secondary well head treatment system; and the construction of a storm drain and sewer connections.		
Use of Financing Proceeds: I-Bank loan proceeds will be used for construction and contingency, engineering/architectural/design/construction management, and the I-Bank fee.		
Source of Security and Repayment: Subordinate Lien on Water System Net Revenues	Form of Financing Agreement: Installment Sale Agreement	
Scoring Criteria: Project Impact Community Economic Need Land Use/Environmental Protection/Housing Element Leverage Readiness TOTAL	Applicant Score: <div style="text-align: right;"> 30 37 25 6 <u>10</u> 108 </div>	
I-Bank Staff: John A. Belmont	Date of Staff Report: February 11, 2010	
Date of I-Bank Board Meeting: February 23, 2010	Resolution Number: 10-07	
Staff Recommendation: Staff recommends approval of Resolution No. 10-07 authorizing financing to the City of Paramount for the Water Well #15 Construction Project, subject to conditions contained therein.		

PROJECT DESCRIPTION AND BACKGROUND

The City of Paramount (City) requests ISRF Program financing for the Water Well #15 Construction Project (Project) located at the northeast corner of the intersection of Somerset Blvd (East Compton Blvd) and San Antonio Avenue in the City of Paramount (Exhibit 1 – Project and City Maps). The Project consists of the design and construction of a new water well and all pumps, motors, valves, controls, and communications equipment (Well); the construction of a secondary well head treatment system (Treatment System); and the construction of a storm drain and sewer connections (Storm Drain and Sewer Connections).

The three Project components are all the same location and are described as follows:

Well. Design, construction and installation of a new water well, and related pumps, motors, valves, controls, and communications equipment necessary to deliver water from the well to the adjacent water transmission facility. The Well will have the capacity to pump 2,000 to 3,000 gallons per minute (gpm). A test well for the Project was successfully drilled in 2008. The Well will be located on land owned by the City.

Treatment System. Construction of a secondary well head treatment system to remove iron, manganese and arsenic from the water prior to distribution. The Treatment System will ensure acceptable drinking water standards as established by the California Department of Health Services.

Storm Drain and Sewer Connections. Construction of a storm drain and sewer connections for collecting, transporting, and/or disposing of runoff. The City's Public Works Director stated that water pumped during start-up or maintenance of a well and during water testing is considered waste and not used for drinking water. The sewer connection will also be used to dispose of the contaminants removed from the water through the Treatment System.

The City currently meets its water demand by pumping groundwater from the Central Basin (Basin) (Exhibit 2 – Central Basin Map) and by purchasing treated water from the Central Basin Municipal Water District (CBMWD), a member agency of the Metropolitan Water District of Southern California (MWD). The City's allocation of Basin water (Water Rights) is a maximum of 5,883 acre-feet per year (AFY). The City is able to pump 5,300 AFY of its Water Rights with its two currently operating wells.

In 2007, the City updated its Water Master Plan (Water Plan) to evaluate its water system requirements for a 15-year planning period of 2007 through 2022. The Water Plan recommends various system capital improvements for increased water supply efficiency, economy, and reliability given the projected population growth. The Project is the sixth of 11 capital improvement projects recommended by the Water Plan.

The Water Plan reports that the City's maximum (without emergency fire flow) water usage between fiscal years 1995/1996 through 2004/2005 was 7,656 AFY. Pursuant to the Water Plan, maximum (without emergency fire flow) water usage is expected to increase to 8,292 AFY, or 8.3%, by 2022 (and 13,224 AFY with fire flow). With one additional well, the Project, the City will be able to draw 100% of its Water Rights, 5,883 AFY. The Water Plan concludes that with three wells producing 100% of the City's Water Rights plus the purchase of treated water from CBMWD, the City will have access to sufficient water to satisfy all demand through the year 2022.

The Water Plan states that a goal for the City is to fully utilize its Water Rights since groundwater is significantly less expensive than purchasing treated water. The City's Public Works Director stated that in fiscal year 2009-10, the cost of purchasing treated water is \$820 per acre foot (including energy costs) compared to the cost of producing groundwater from the Basin of \$299 per acre foot. By pumping 100% of its Water Rights and reducing the volume of purchased treated water, the City will be able to maintain the lowest water rates possible. The City's application indicates that it anticipates that lower water rates will assist and attract businesses to the City by reducing the costs of doing business in the City, especially for those manufacturers that use water as part of the manufacturing process.

The City's Public Works Director indicated that the Project will have some beneficial environmental consequences as the City will use an electric well motor rather than a natural gas motor. The electric motor will generate no direct fuel emissions as opposed to the use of a natural gas motor.

PROJECT SOURCES AND USES

The Project will be financed as follows:

	I-Bank	City	Total
Construction & Contingency	\$4,782,860	\$725,973	\$5,508,833
Engineering/Architectural/Design/ Construction Management/Permits/ Rate Study	\$670,390	\$368,500	\$1,038,890
Other: Reimbursement of appraised value to state; water rate study		\$485,536	\$485,536
I-Bank Origination Fee	\$46,750		\$46,750
Total	\$5,500,000	\$1,580,009	\$7,080,009

Source: City

The I-Bank will fund 78% of the Project. The City has available and has committed \$1,580,009 to the Project per Resolution 10:005.

The City anticipates that no City staff will be paid with ISRF Program funds.

ELIGIBILITY CRITERIA

The City and the Project meet all of the statutory and supplemental threshold eligibility criteria.

CITY INFORMATION

The City is located in the southeast portion of the County of Los Angeles, approximately 17 miles southeast of the City of Los Angeles downtown area. The City is bounded by South Gate and Downey on the north, Bellflower on the east, Long Beach on the south, and Compton, Lynwood, and unincorporated areas of the County of Los Angeles on the west.

The City has a total land area of 3,072 acres, or 4.8 square miles. The City incorporated in January 30, 1957, as a general law city and operates under the Council-Manager form of government with a five-member council, elected at large. Each year, the elected Council members elect one member to serve as mayor, and another member to serve as vice-mayor. Each member of the Council serves a 4-year term of office.

The 2000 Census (Census) reported that the City's population was 56,596, and that the poverty rate was 21.9%, which was over 154% of the state's 14.2% 2000 poverty rate. The Census also reported that the City's median family income was \$37,276, or approximately 70% of the state's median family income. The state's 2008 unemployment data reports the City's unemployment rate was 11.1%, compared to the state unemployment rate of 7.2%.

The City is near full development with approximately 52% of the City developed as residential uses, 23% as industrial land use, and 5% as commercial land use. Major industries in the City include: construction, metal and metal products, administrative and support, waste management services, accommodation and food services, truck transportation, transportation equipment, and miscellaneous manufacturing. The remaining 20% of the City's land area is devoted to public lands.

Below is a list of the City's 2008-09 top ten property taxpayers as provided in a report prepared by HdL Coren & Cone, dated August 27, 2009 along with the reports primary land use:

- Paramount Petroleum Corporation (Possessory Interest)
- Carlton, Forge Works (Unsecured)
- Weber Metals Inc. (Industrial)
- MMI of BCI Paramount Garfield (Vacant Land)
- WalMart Real Estate Business Trust (Commercial)
- Paramount General Hospital Company (Institutional)
- Modern Development Company (Commercial)
- KW HFC Paramount LP (Residential)
- ASP Realty Inc. (Commercial)
- PRI Paramount Industrial California LLC (Industrial)

SYSTEM INFORMATION

The City owns and operates a domestic water system (System) that includes two operating wells (Well 13 and Well 14); two water connections with MWD for imported water; approximately 130 miles of water transmission and distribution mains, constructed prior to 1970; and appurtenant valves, hydrants and equipment. According to the Water Plan, the City has no storage reservoirs although the Basin acts as storage for the City. The City has three emergency mutual-aid water connections with the City of Long Beach for use during fire events and other emergencies. The City's Public Works Department manages the System.

The City's two operating wells pump groundwater from the Basin and together have the capacity to produce approximately 5,300 AFY of its allocated 5,883 AFY when operating at or near full capacity. However, the Water Plan states that the existing wells are operated at 65% capacity on an average day, and 100% capacity for all other demand conditions. The two existing wells are 33 and 27 years old, respectively, each having a total useful life of 40 to 50 years. Due to water quality and maintenance issues, each well has been out of operation from time-to-time, increasing the need to purchase treated water during these times.

Water Capital Plans. The City's Water Plan recommends regular maintenance and well rehabilitation to extend the life of each existing well as well as replacement of these wells in the next 10 to 20 years. The Water Plan prioritizes 11 capital improvement projects over a 15-year planning period, beginning in 2007 through 2022. Recommended capital improvements include the Project, installing emergency generators and emergency water connection improvements, replacing the City's two existing wells, building a 4.0 million gallon reservoir, and replacing water mains. Five Water Plan projects have already been constructed or are in construction and financed with City funding. The City reports that it does not yet have a plan to fund additional Water Plan capital improvements beyond the I-Bank funding for the Project.

Water Reliability. The City provided a report entitled the, “Watermaster Service in the Central Basin, Los Angeles County, July 1, 2007 - June 30, 2008,” dated October 2008, which explains that more than 50 years ago, groundwater overdraft and declining water levels in the Basin threatened the groundwater supply and caused sea water intrusion in the southern part of the Basin. The Basin overdraft and declining water levels resulted in a court order in 1965 (Central Basin Judgment) restricting water production by allocating Water Rights to Basin users. Water production from the Basin is monitored by a court-appointed watermaster, in this case, the State of California Department of Water Resource.

The Water Plan states that the City’s Water Rights is a maximum of 5,883 acre-feet per year (AFY). The City’s Public Works Director states that it is highly unlikely that the amount of the City’s Water Rights would be reduced because the Central Basin Judgment has protections built in to protect those rights.

The City augments its groundwater production with treated water purchased from the Central Basin Municipal Water District (CBMWD), a member agency and distributor of water from the Metropolitan Water District of Southern California (MWD). The City has purchased water from the CBMWD for 35 years pursuant to a contract with CBMWD (Contract), most recently renewed in 2008. The Contract has a term of five years and a five year renewal option. The Contract provides a maximum commitment of 9,336 acre feet of treated water annually with a per acre foot price ranging from \$557 to \$655 for the tier rate and \$73 to \$171 for the tier supply rate.

Pursuant to the Water Plan, MWD imports raw water from northern California and the Colorado River, then treats the majority of this water to potable standards. MWD water imported from northern California as part of the State Water Project (SWP) is stored at Castaic Lake and at Silverwood Lake near San Bernardino. MWD water imported from the Colorado River is stored at Lake Matthews in Riverside County. The Diamond Valley Reservoir in Hemet provides regional seasonal and emergency storage of SWP water and Colorado River water.

The Water Plan further states that imported water available to California from the Colorado River will be gradually reduced as a result of the Colorado River Water Delivery Agreement, which was signed in October 2003. In the agreement, California agreed to take specific, incremental steps to reduce its over-reliance on Colorado River water over the next 14 years, allowing the state to live within its authorized annual share of 4.4 million acre-feet. Based on the proposed programs to augment lost supply from the Colorado River, the Water Plan states that the MWD does not anticipate that existing imported water supplies to southern California will be reduced.

Recent newspaper articles report that the California courts have invalidated the Quantification Settlement Agreement¹ (QSA), a collection of agreements that transfers conserved agricultural water from the Imperial Irrigation District to the San Diego County

¹ The Quantification Settlement Agreement is the Colorado River Water Delivery Agreement.

Water Authority, the Coachella Valley Water District, and the MWD. Staff does not know what impacts this court ruling will have on the MWD's water supply. The City reports that in its conversations with CBMWD, CBMWD indicated that the impact of the QSA invalidation on its operations has not been determined.

As stated in the Water Plan, the City's maximum water usage between fiscal years 1995/1996 through 2004/2005 was 7,656 AFY; 77% of which can be produced from Basin groundwater by the City's two existing wells with the balance of the water being purchased from CBMWD. The Water Plan also estimates the City's maximum water demand to increase to approximately 8,224 AFY by 2022.

Finally, the Water Plan states that the City could potentially lose its entire purchased water supply if any component or transmission pipeline associated with connections to the MWD system fails. Between Water Rights and the purchase of treated water, the Water Plan indicates sufficient water supply to meet maximum-day demand through 2022. However, as per the Water Plan, either the groundwater or the purchased imported water alone can meet nearly 100% of demand for the 2022 system.

CREDIT ANALYSIS

Historical Revenue Collection Performance

Historical and current System users as of fiscal year end (FYE) June 30 for the years shown are categorized as follows:

NUMBER OF SYSTEM USERS					
	2005	2006	2007	2008	2009
Residential	6,362	6,395	6,421	6,260	6,418
Commercial	544	535	549	544	554
Industrial	594	596	605	579	594
Other	460	461	473	459	452
TOTAL	7,960	7,987	8,048	7,842	8,018
% Change	n/a	0.34%	0.76%	-2.56%	2.24%

Source: City

The chart above reflects that the number of System users has been relatively constant, with the exception of FYE 2008 when the City reports a 2.56% decline in user and a corresponding increase of 2.24% in FYE 2009. The City reports the variance between these two years is most likely due to an inconsistency between its current billing system and actual customer accounts and does not believe the drop is an actual drop in the number of users.

Current System usage and revenues as of July 2009 are as follows:

CURRENT SYSTEM USAGE AND REVENUE				
	Annual Usage	% of Usage	Annual Gross Revenues	% of Total Revenues
Residential	1,917,589	61.5%	\$3,735,955	58.5%
Commercial	327,184	10.5%	\$712,033	11.1%
Industrial	526,705	16.9%	\$1,169,324	18.3%
Other	347,342	11.1%	\$773,450	12.1%
TOTAL	3,118,820	100.0%	6,390,762	100.0%

Source: City

Annual usage and annual System gross revenues are concentrated in residential users with 61.5% of total usage and 58.5% of total revenue. The City reports that other usage and System gross revenues of over 12% consist of recycled irrigation water applied to City property and used by other municipal entities and large businesses in the City.

Historical Rates

The following tables reflect a history of the City's adopted rate increases and rates since July 2005.

HISTORY OF RATE INCREASES			
Approved	Resolution #	% Increase	Effective
10/20/09	09:014	10%	January 2010
07/01/08	08:012	8%	January 2009
07/03/07	07:014	10%	January 2008
07/11/06	06:014	5%	January 2007
07/05/05	05:020	7%	January 2006

Source: City

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
Source:	Application	Application	Application	Application	Application
Fiscal Year Ending (FYE) June 30,	2005	2006	2007	2008	2009
Residential	\$26.50	\$28.50	\$30.00	\$33.00	\$35.50
% change		7.5%	5.3%	10.0%	7.6%

As shown above, System rates have steadily increased over the five-year period.

Rate Comparison

The table below compares the City's current average monthly System user charge per residential unit with nearby systems as of May 2009.

COMPARABLE RATE DATA	
System Name	Monthly Average Residential Charge
City of Downey	\$22.00
City of Cerritos	\$29.00
City of Bellflower	\$32.50
City of Paramount	\$39.00
City of Lakewood	\$39.00
City of Compton	\$44.00
City of Santa Fe Springs	\$46.50
City of Signal Hill	\$47.50
City of Long Beach	\$53.50

Source: City

The City's current monthly average user charge of \$39 ranks near the middle when compared to the eight surrounding cities examined in the table above.

The table below lists current top ten users of the System as of June 2009.

SYSTEM TOP 10 USERS			
User	% of System Use	% of System Revenues	Customer Class
1. Paramount Petroleum	7.51	7.90	Industrial
2. City of Paramount	3.88	.17	Irrigation
3. Paramount Unified School	1.26	.20	Irrigation
4. Braun Towel-Lin	1.17	1.10	Industrial
5. Century Place Apartments	1.06	.90	Residential
6. Compton Unified School District	.88	.97	Irrigation
7. Anaplex Corp	.81	1.04	Industrial
8. Americana Paramount LP	.74	.89	Residential
9. California Mobile Home Est	.70	.74	Residential
10. Somerset Village	.60	.69	Residential
TOTAL	18.61%	14.60%	

Source: City

At 14.60%, revenues derived from the top ten ratepayers do not exceed 50% of the System's annual revenue and revenues derived from any single ratepayer do not exceed 15% of System revenues (System Revenues).

Security and Source of Financing Repayment

The I-Bank will have a lien on the net System Revenues and on the City's Water Enterprise Fund. The lien for the proposed ISRF Program loan will be subordinate to

the City's existing lien for the loan from the U.S. Department of Commerce Economic Development Administration--Loan Contract Paramount 53,006-11-2 (EDA Loan) discussed more fully below. As a condition to the ISRF Program loan, the City will agree to be prohibited from entering into additional debt senior to the ISRF Program loan.

All System Revenues are deposited into the Water Enterprise Fund (Fund). The Fund has been established to account for System-related financial activities.

Financial Analysis

Staff reviewed the City's Comprehensive Annual Financial Report (CAFR) for FYE June 30, 2007, 2008, and 2009. The independent auditor's report states that the financial statements present fairly in all material respects the financial position of the City, the results of its operations and the cash flows for the audited years consistent with generally accepted accounting principles. Staff also reviewed the City's adopted budget for fiscal year (FY) 2009-2010.

Comparative Balance Sheet Analysis

The Comparative Statement of Net Assets for the Fund for the last three fiscal years is as follows:

Comparative Statement of Net Assets						
Fiscal Year Ended (FYE) June 30,	2007	%	2008	%	2009	%
Source:	CAFR		CAFR		CAFR	
Assets						
Current assets:						
Cash & investments	\$ 2,369,473	10.7%	\$ 3,521,362	15.9%	\$ 2,484,149	11.2%
Accounts receivable	1,607,900	7.2%	194,623	0.9%	145,717	0.7%
Interest receivable	33,503	0.2%	25,144	0.1%	9,791	0.0%
Prepaid expenditures and deposits	3,396	0.0%	4,221	0.0%	5,630	0.0%
Inventory	197,262	0.9%	181,435	0.8%	164,047	0.7%
Total Current Assets	\$ 4,211,534	18.9%	\$ 3,926,785	18%	\$ 2,809,334	12.7%
Noncurrent assets:						
Capital assets:						
Construction in progress	2,225,274	10.0%	551,196	2.5%	1,466,022	6.6%
Land and water rights	2,270,763	10.2%	2,270,763	10.3%	2,270,763	10.2%
Buildings and well improvements	2,066,790	9.3%	4,406,680	19.9%	4,562,281	20.6%
Water mains	20,062,205	90.2%	20,062,205	90.7%	20,062,205	90.5%
Water distribution equipment ⁽¹⁾	7,325,066	32.9%	6,137,271	27.8%	6,953,290	31.4%
Other water equipment ⁽¹⁾	0	0.0%	1,070,102	4.8%	1,070,102	4.8%
Furniture, machinery and equipment ⁽¹⁾	0	0.0%	322,282	1.5%	322,282	1.5%
Vehicles	351,918	1.6%	366,520	1.7%	366,520	1.7%
Less accumulated depreciation	(16,276,026)	-73.2%	(16,998,359)	-76.9%	(17,724,908)	-80.0%
Total Noncurrent Assets	\$ 18,025,990	81.1%	\$ 18,188,660	82.2%	\$ 19,348,557	87.3%
Total assets	\$ 22,237,524	100.0%	\$ 22,115,445	100%	\$ 22,157,891	100.0%
Liabilities						
Current liabilities:						
Accounts payable	\$ 482,811	2.2%	\$ 439,962	2.0%	\$ 445,132	2.0%
Deposits payable	216,942	1.0%	219,308	1.0%	216,149	1.0%
Current portion of employee leave payable	10,197	0.0%	14,261	0.1%	12,906	0.1%
Current portion of notes payable	18,272	0.1%	208,075	0.9%	209,034	0.9%
Total current liabilities	\$ 728,222	3.3%	\$ 881,606	4.0%	\$ 883,221	4.0%
Noncurrent liabilities:						
Employee leave payable-long term portion	\$ 38,708	0.2%	\$ 47,934	0.2%	\$ 54,829	0.2%
Net OPEB obligation					\$ 99,779	0.5%
Notes payable-long term portion	1,941,486	8.7%	1,544,522	7.0%	1,335,488	6.0%
Total noncurrent liabilities	\$ 1,980,194	8.9%	\$ 1,592,456	7.2%	\$ 1,490,096	6.7%
Total liabilities	\$ 2,708,416	12.2%	\$ 2,474,062	11.2%	\$ 2,373,317	10.7%
Net Assets						
Invested in capital assets, net of related debt	\$ 16,066,232	72.2%	\$ 16,436,063	74.3%	\$ 17,804,035	80.4%
Unrestricted	3,462,876	15.6%	3,205,320	14.5%	1,980,539	8.9%
Total net assets	\$ 19,529,108	87.8%	\$ 19,641,383	88.8%	\$ 19,784,574	89.3%
Working Capital	\$ 3,483,312		\$ 3,045,179		\$ 1,926,113	
Current Ratio	578%		445%		318%	

Source: City

⁽¹⁾Through FY 2007, the System's Water distribution equipment line item consolidated three categories which were broken out in FY 2008: Well distribution equipment, Other water equipment, and Furniture, machinery and equipment as evidenced above.

Total Assets were stable over the three fiscal years analyzed. However; however, due to the movement of funds between the Current Asset categories of Accounts Receivable and Cash and Investments and the Non-current Assets of Construction in Progress and Buildings and Well Improvements, Total Current Assets decreased during the same period. decrease Additionally, in FY 2007, Accounts Receivable included a

loan receivable from the Water Replenishment District of Southern California (WRD) in the amount of \$1.4 million for repairs completed on Well #13.

The following table reflects the City's Accounts Receivable Aging as of November 19, 2009.

Accounts Receivable Aging as of 11/19/2009					
	0-21 Days	22-35 Days	36-42 Days	43+ Days	Total
Total	554,246	17,810	15,135	39,436	626,627
%	88%	3%	2%	6%	100%

Source: City

The table reflects that 88% of the accounts are paid within 21 days indicating that the City adequately manages collections from ratepayers.

Total Liabilities decreased 12.8% over the past three fiscal years due to retirement of debt.

Total Net Assets increased from \$19,529,108 to \$19,784,574, or 1%, as a result of the activity discussed above.

The balance sheet reflects adequate working capital for a System of this size.

Comparative Revenues and Expenses Analysis

The Statement of Revenues, Expenses, and Changes in Fund Net Assets for the last three fiscal years is as follows:

Statement of Revenues, Expenses, and Changes in Fund Net Assets						
Fiscal Year Ended (FYE) June 30,	2007	%	2008	%	2009	%
Source:	CAFR		CAFR		CAFR	
% Change	0%		6%		7%	
Operating Revenues						
Charge for services	\$ 5,874,275	97.8%	\$ 6,229,434	94.5%	\$ 6,636,348	98.5%
Other revenues	134,184	2.2%	363,583	5.5%	101,774	1.5%
Total Operating Revenues	\$ 6,008,459	100%	\$ 6,593,017	100%	\$ 6,738,122	100.0%
Operating Expenses						0.0%
Water commission	\$ 2,736	0.0%	\$ 2,572	0.0%	\$ 2,299	0.0%
Water system administrator	1,210,202	20.1%	1,070,198	16.2%	1,161,927	17.2%
Water production	3,677,659	61.2%	3,494,640	53.0%	3,221,732	47.8%
Water distribution	756,209	12.6%	851,822	12.9%	988,389	14.7%
Water customer services	187,598	3.1%	196,513	3.0%	233,215	3.5%
Water billing	195,856	3.3%	260,144	3.9%	252,890	3.8%
Other operating expenses	118,443	2.0%	13,382	0.2%	53,567	0.8%
Depreciation	668,145	11.1%	722,333	11.0%	726,549	10.8%
Total Operating Expenses	\$ 6,816,848	113.5%	\$ 6,611,604	100.3%	\$ 6,640,568	98.6%
Operating Income (Loss)	\$ (808,389)	-13.5%	\$ (18,587)	-0.3%	\$ 97,554	1.4%
Nonoperating Revenues (Expenses)						0.0%
Interest revenue	\$ 152,590	2.5%	\$ 143,845	2.2%	\$ 57,706	0.9%
Interest expense	(13,853)	-0.2%	(12,983)	-0.2%	(12,069)	-0.2%
Total nonoperating revenue	\$ 138,737	2.3%	\$ 130,862	2.0%	\$ 45,637	0.7%
Income (Loss)	\$ (669,652)	-11.1%	\$ 112,275	1.7%	\$ 143,191	2.1%
Change in net assets	\$ (669,652)	-11.1%	\$ 112,275	1.7%	\$ 143,191	2.1%
Total net assets - July 1	20,198,760		19,529,108		19,641,383	
Total net assets - June 30	\$ 19,529,108		\$ 19,641,383		\$ 19,784,574	

Source: City

Total Operating Revenues increased 12% over the past three years as a result of adopted rate increases discussed earlier.

Total Operating Expenses were lower, and Operating Income higher, in FY 2008 and FY 2009 than in FY 2007. In FY 2007, the City shut down Well #13 to complete repairs and to construct a treatment system. To meet demand during the shutdown, the City purchased more water in FY 2007 than in FY 2008 and FY 2009. The costs of the repairs on Well #13 were also reported in FY 2007. Together, these extraordinary expenses resulted in greater Total Operating Expenses and lower Operating Income in 2007. With Well #13 returned to operation, Total Operating Expenses were reduced and Operating income increased in FY 2008 and FY 2009.

Nonoperating Revenues consisted of Interest Revenue and Interest Expense. Interest Revenue declined over the three-year period due to a reduction in Cash and Investments between FY 2008 and FY 2009, as well as the downturn in the economy resulting in a decline of earnings on investments. Interest Expense was relatively flat during the same period as the City incurred no additional debt.

With Well #13 in production and not creating extraordinary operating expenses, the System reports profitable operations as seen in the positive Change in Net Assets in FY 2008 and FY 2009.

Staff also reviewed the adopted FY 2009-2010 Annual Budget (Budget) and found the Budget consistent with historical revenues and expenses, with revenues and expenses trending higher. Water operations are budgeted at \$7,587,400, an increase of \$307,150 over the current year due to the rise in both pumped water and purchased water costs. The Budget states that the City is in the process of obtaining a construction loan from either the I-Bank or Department of Water Resources to complete the construction of new Well #15.

Debt Service Analysis and Cash Flow

The City's current and proposed outstanding debt obligations are as follows:

OBLIGATIONS							
Original Financing Amount	Origination Date	Issuer/ Lender	Maturity	Interest Rate %	MADS ⁽³⁾	Outstanding Balance as of 06/30/09	Lien Position/ Repayment Pledge
\$527,200	1977	U.S Department of Commerce EDA ⁽¹⁾	2017	5.00%	\$31,255	\$222,300	Senior lien on gross System revenues
\$5,500,000	2009	Proposed I-Bank	2038	4% ⁽²⁾	\$338,263	\$0	Subordinate lien on net System revenues
\$1,700,000	2006	Water Replenishment District of Southern California	2016	0.00%	\$170,000	\$1,322,222	Unsecured
Aggregate Debt					\$539,518	\$1,544,522	

Source: CAFR and debt documents.

(1) EDA means Economic Development Administration.

(2) Estimate.

(3) MADS mean maximum annual debt service.

On November 1, 1977, the Paramount Water District (predecessor System owner to the City) entered into a loan contract with the U.S. Department of Commerce Economic Development Administration--Loan Contract Paramount 53,006-11-2 (EDA Loan), pursuant to the Community Emergency Drought Relief Act of 1977, California Statutes 1977, and District Resolution Nos. 77-4W and 77-5W. The City reports that there have been no events of default on the EDA Loan and the City is in compliance with all terms and conditions of the EDA Loan.

The EDA Loan is secured by a lien on gross System revenues together with all improvements and extensions to said System later constructed or acquired. The EDA loan requires that the City must maintain rates and charges not less than 1.2 times MADS on the EDA Loan until such time as the reserve account in the amount of MADS is fully funded, or in the event that the reserve account is less than MADS.

On February 1, 2006, the City entered into a loan agreement for a zero interest loan in the amount of \$1,700,000 with the WRD. While the WRD loan (WRD Loan) is not secured by System revenues, the City records the WRD Loan as a debt of the Fund and makes the payment from the Fund. For credit analysis purposes, the I-Bank requested and received a copy of a letter to the City dated September 3, 2009, wherein WRD certified that: a) the issuance of the ISRF Program loan will not be considered an event of default, and b) the City is in compliance with all loan covenants.

The City proposes, and the I-Bank staff agrees, that the lien on System Revenues for the proposed ISRF Program financing should be subordinate to the EDA Loan (more fully discussed below).

Historical Fund cash flow and debt service analysis (with and without connection fees) for the proposed ISRF Program financing is presented below:

CASH FLOW			
Fiscal Years Ended (FYE) June 30,	2007	2008	2009
Operating Income (Loss)	(808,389)	(18,587)	97,554
Add back Depreciation Expense	668,145	722,333	726,549
Add Interest Income	152,590	143,845	57,706
Cash available for debt service w Connection Fees	\$ 12,346	\$ 847,591	\$ 881,809
Cash available for debt service w Connection Fees	\$ 12,346	\$ 847,591	\$ 881,809
Connection Fees ⁽¹⁾	\$ 8,440	\$ 14,980	\$ 16,468
Cash available for debt service w/o Connection Fees	\$ 3,906	\$ 832,611	\$ 865,341
Debt Service Data			
MADS--Existing EDA Loan	\$ 31,255	\$ 31,255	\$ 31,255
MADS--Proposed CIEDB (@4.0%, 30 yr)	\$ 338,263	\$ 338,263	\$ 338,263
Total Senior and Subordinate MADS	\$ 369,518	\$ 369,518	\$ 369,518
MADS--WRD	\$ 170,000	\$ 170,000	\$ 170,000
Aggregate MADS	\$ 539,518	\$ 539,518	\$ 539,518
Debt Service Calculation			
Sr./Sub. Debt Svc. Coverage Ratio w/Connection Fees	0.03	2.29	2.39
Sr./Sub. Debt Svc. Coverage Ratio w/o Connection Fees	0.01	2.25	2.34
Aggregate Debt Svc. Coverage Ratio w/Connection Fees	0.02	1.57	1.63
Aggregate Debt Svc. Coverage Ratio w/o Conn. Fees	0.01	1.54	1.60

(1) Source: City

As discussed above, Well #13 was shut down for repairs and to construct a treatment system in FY 2007, resulting in extraordinary expenses leading to the low debt service coverage ratios reflected above for FYE 2007. With repairs and construction complete, Well #13 operational, and no additional extraordinary expenses, System revenues in the last two fiscal years reflect sufficient repayment ability for the existing debt and the proposed ISRF Program financing. Aggregate debt service coverage ratios with and without Connections Fees in the last two fiscal years are greater than 1.10 times MADS required by the ISRF Program Criteria.

Due to the strength of the cash flows, staff agrees with the City's lien position request and recommends a subordinate lien on net System revenues to the EDA Loan, along

with a prohibition of both future gross revenue pledges and future debt senior to the I-Bank, but allowing future parity debt.

Compliance with I-Bank Underwriting Criteria

- I-Bank Program financing is proposed to be a subordinate lien on System net revenues. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio with connection fees, and 1.0 times debt service coverage ratio without connection fees.
- System revenues derived from the top ten System ratepayers do not exceed 50% of the System's annual revenues.
- System Revenues derived from any single ratepayer do not exceed 15% of System revenues.
- The City has the power to establish and enact rates and charges without the approval of any other governing body.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation

The City reports no current or anticipated litigation or material controversy that would materially affect its ability to construct the Project or repay the proposed ISRF Program financing.

Project Management Ability

The City selected Thomas Epperson, P.E, with Tetra Tech, to provide construction management for the Project. As stated in Mr. Epperson's resume, he has over 28 years of professional experience in water, wastewater, and reclaimed water engineering; and possesses the necessary experience and knowledge to manage the Project. Mr. Epperson's resume reflects that he has been responsible for completing the design, bidding, and construction management of over 180 miles of water/reclaimed water/sewer mains, 36 water/reclaimed water pump stations, 15 well-head facilities, 12 sewer lift stations and 25 water/reclaimed water storage reservoirs throughout Southern California.

California Environmental Quality Act

On September 4, 2008, the City filed a Notice of Exemption with the County of Los Angeles Recorder's Office for the City of Paramount Capital Improvement Projects -- FY 2008-09 that encompasses various City capital improvement projects at locations throughout the City, including the Project.

SCORING CRITERIA FOR PRIORITIZING PROJECTS			
POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	The City did not submit documentation for this point category. However, the City projects population growth of 8% through 2025 through infill and redevelopment projects and its General Plan includes policies to revitalize and promote economic development through commercial and industrial development that are anticipated to provide jobs for the local labor force and attract industries with high sales tax generation and high assessed valuation.	30	0
Economic Base Employers	Not applicable.	10	0
Community Employment Development Plan	Not applicable.	10	0
Quality of Life/Community Amenities	<p>The Project is consistent with the City's General Plan which under its Land Use Policies provides for preservation of a high quality of life, to which such projects contribute; and under its General Plan Public Facilities Element Policies which state that the City will (1) maintain good water quality, (2) provide delivery capacity to meet normal usage and fire requirements, and (3) protect, conserve, and enhance water resources through implementation of the Water Plan. Additionally, the City's General Plan Economic Development Element covers the City's economic revitalization of the commercial and industrial districts, and contains a policy that states that the City will continue to improve those areas with deficient infrastructure.</p> <p>The Water Plan evaluates the City's needs for a 15-year period, 2007 – 2022, considering water demands, supply, quality, disinfection, storage, emergency supply, and distribution piping which as a whole contributes to the overall quality of life. The Project is one of twelve recommended capital improvement projects named in the Water Plan.</p> <p>The Project will support water delivery capacity to meet normal usage and provide long-term economic competitiveness by managing to keep future water rates as low as possible.</p> <p>Further, the Project is contributing to public safety</p>	30	30

	by enhancing disaster preparedness for fire and drought.		
Community Economic Need			
Unemployment Rate	The City's 2008 unemployment rate was 11.1%, which was 154.2% of the State's 2008 unemployment rate of 7.2%.	20	10
Median Family Income	According to the 2000 Census, the City's median family income was \$37,276, which was 70.3% of the State's 2008 median family income of \$53,025.	15	7
Change in Labor Force Employment	The City's 2008 decrease in labor force employment was -8.68%, which was less than the State's 2008 increase in labor force of 1.74%.	10	10
Poverty Rate	According to the 2000 Census, the City's poverty rate was 21.9%, which was 154.2% of the State's 2000 Census poverty rate of 14.2%.	10	10
Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project meets the first priority for land use in that it renews and maintains an existing urban area.	20	20
Environmental Protection	<p>According to the City, the Project will use a zero emission electrical well motor rather than a natural gas motor as found in the City's older wells.</p> <p>The Treatment System creates no bi-product as a result of its purification process. Instead, the Treatment System allows a small amount of diluted manganese and arsenic in the discharged water to a level that meets the water quality standard for the Los Angeles County Sanitation District (Sanitation District).</p>	10	5
Housing Element	The City's Housing Element was last adopted in 2005; an update is due for the current planning period. As such, the City does not have an approved HCD Housing Element.	10	0
Leverage			
Leverage	The non-I-Bank funding to I-Bank funding is 29% calculated as follows: (\$1,580,009/\$5,500,000)	15	6
Readiness			
Readiness	Project construction is scheduled to start March 2010, within one month of the I-Bank Board date.	10	10
TOTAL		200	108

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 10-07 authorizing financing for the City of Paramount for the Project as follows:

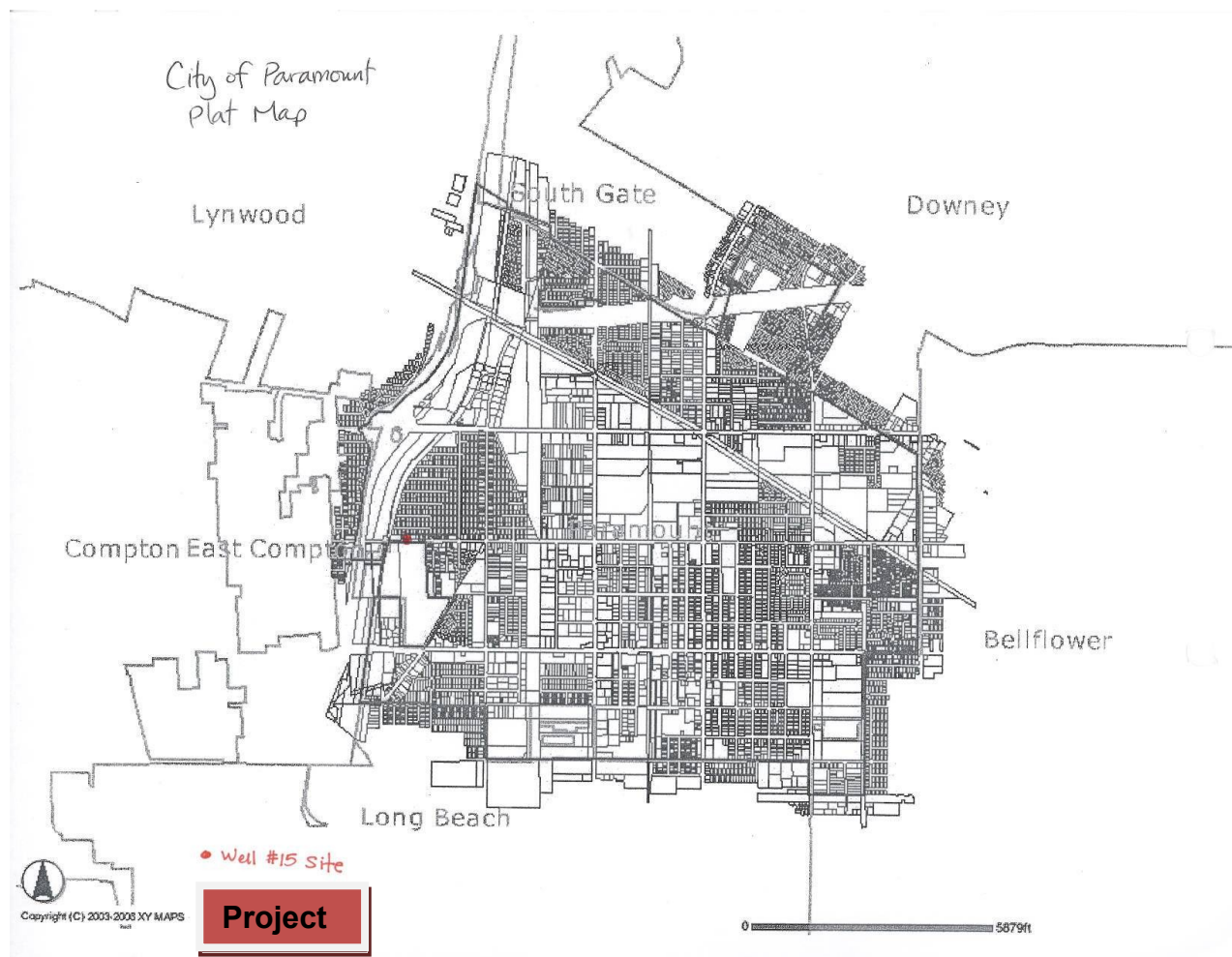
1. **Borrower:** City of Paramount.
2. **Project:** Water Well #15 Construction Project.
3. **Amount of Financing:** Not to exceed \$5,500,000.
4. **Maturity:** Not to exceed 30 years.
5. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of revenue bonds or I-Bank equity funds.
6. **Repayment/Security:** Lien on the Water System net revenues and Water Fund subordinate to the EDA Loan.
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based rates as of February 1, 2010.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing amount and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement Covenants:** The Installment Sale Agreement shall include, among other things, the following covenants:
 - a. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for senior and subordinate parity obligations.
 - b. Water System net revenues may not be pledged on a senior basis. Water System net revenues may be pledged on a parity with the ISRF Program financing for future financings if net revenues (adjusted for rate increases and system expansion) will provide an aggregate senior and parity future debt service coverage of 1.10 times maximum annual debt service on all outstanding senior and parity debt, inclusive of the proposed financing.
 - c. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan is pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.

- d. An agreement to indemnify the I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.
- 11. Conditions Precedent to Execution of I-Bank Installment Sale Agreement:**
- a. Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
 - b. Receipt of an opinion of legal counsel to Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged revenues, that the Installment Sale Agreement is a legal, binding and enforceable agreement of the Borrower, and that the Borrower is not in default of any agreement or obligation secured by revenues of the water system.
 - c. Executed tax certificate.
- 12. Conditions Precedent to Initial Disbursement:** The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:
- a. Execution of an Installment Sale Agreement consistent with the terms contained herein.
- 13. Conditions Precedent to Construction Disbursement For Each Project Phase:**
- a. Certification by the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower:
 - i. Has obtained the land, rights-of-way, easements, and orders of possession that are required for construction.
 - ii. All required permits have been obtained.
 - b. For each construction contract:
 - i. A written statement by the Borrower, the Borrower's legal counsel other individual acceptable to the I-Bank that:
 - 1. All construction contracts necessary for the construction of the Project have been awarded pursuant to applicable competitive bidding requirements and the Borrower's procedures normally required for similar construction projects.
 - 2. Project costs for the applicable Project component are consistent with the Sources and Uses listed in this staff report; and
 - 3. Appropriate builder's risk insurance has been obtained and the policy names the Borrower as additional insured and loss payee, contractor has acquired and shall be required to maintain liability insurance and name the Borrower as an additional insured, and contractor shall be required to obtain performance and payment bond provisions and name the Borrower as additional payee.
 - 4. All construction contracts require: payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.
 - 5. All construction contracts require payment of workers' compensation insurance by contractors and subcontractors.
 - 6. All construction contracts include applicable nondiscrimination provisions.

7. The Borrower has utilized the contractor pre-qualification forms developed by the Department of Industrial Relations as set forth in AB 574 (Chapter 972 of the Statutes of 1999) codified in Public Contract Code Section 20101 et seq.
 - ii. Submittal of a copy of the complete construction contract.
 - iii. Submittal of a copy of the contractor's builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.
14. **Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:
 - a. Recorded Notice of Completion or other evidence of completion for each Project component.
 - b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
 - c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this Staff Report and is acceptable to the Borrower.
 - d. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.
15. **Financial and Other Reporting Requirements:**
 - a. Audited annual Borrower financial statements, due to the I-Bank within 210 days of fiscal year end.
 - b. Other information as the I-Bank reasonably may request from time to time.

EXHIBIT 1 – PROJECT AND CITY MAPS

Location of Project and City



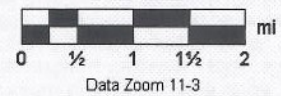
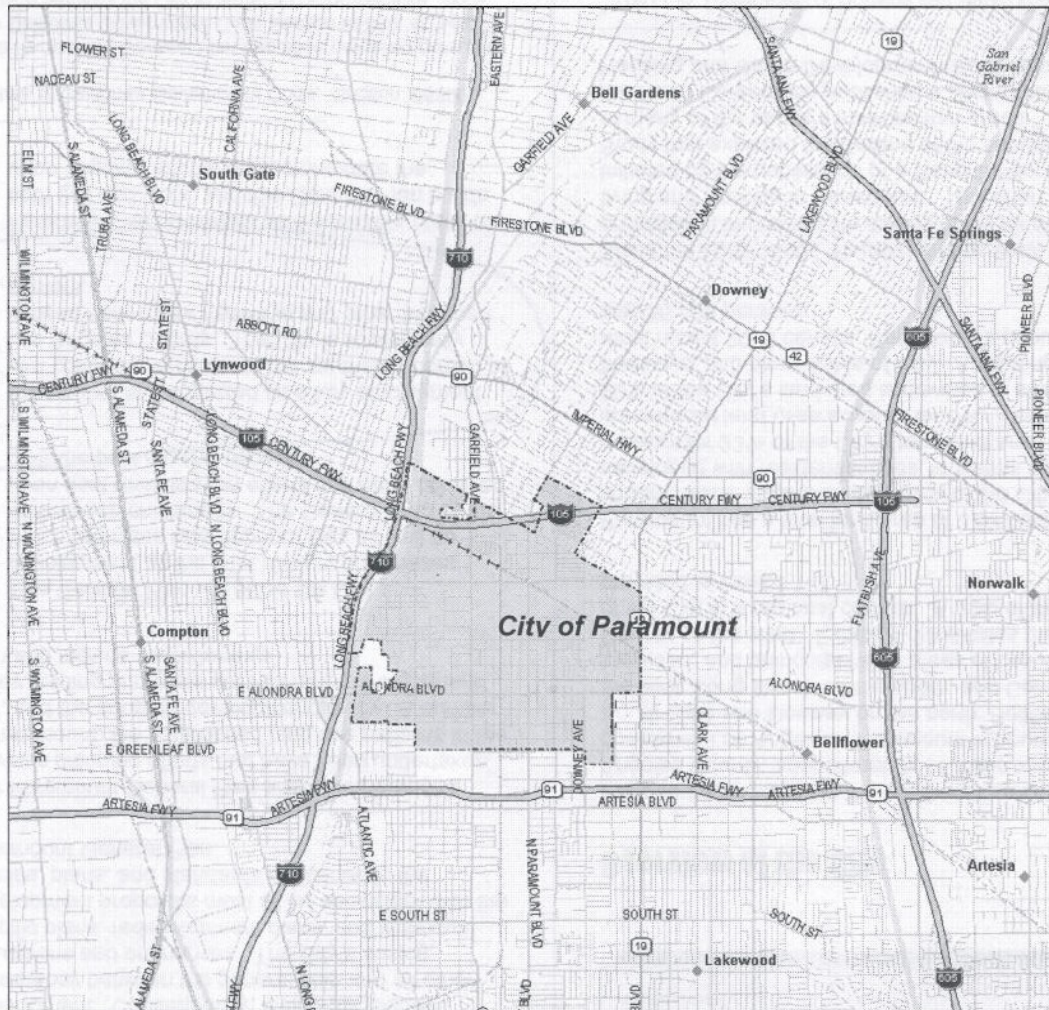


EXHIBIT 2 – CENTRAL BASIN MAP

